NJ Review & Economic Outlook for 2004-2005

Forecast Summary: "The missing cylinder of employment growth has finally started firing in the national economic engine, and New Jersey, with its head start in 2003, will register solid growth in jobs, income, and retail sales in 2004." ***Joseph J. Seneca, Chairman***

NJ Forecast 2004-05

Last year was a transition year for the New Jersey economy. The State posted a fragile 1st half, but there were a growing number of positive indicators by year-end. For 2004, an expanding national economy and recovery in surrounding metropolitan markets provide the backdrop for a New Jersey economy expected to have its best growth since 2000.

	2004	2005
Gross State Product (current $)	**5.0%**	**5.5%**
Personal Income (current $)	**4.5%**	**4.7%**
Non-Ag Employment	**1.4%**	**1.4%**
Retail Sales (current $)	**4.5%**	**4.7%**
Consumer Price Index	**2.0%**	**2.3%**

The NJ outlook continues to benefit from the federal tax cuts enacted last year that boost high-income states like New Jersey. More favorable business depreciation rates and lower taxes on dividends and capital gains enhance disposable income for both businesses and individuals. Total employment in New Jersey posted modest job gains last year and the State's unemployment rate fell and is below the national average. For 2004 and 2005 NJ has an increasing number of sectors that are showing employment growth. Travel and tourism continues to improve while Atlantic City benefits from another round of casino/hotel investment.

High technology is beginning to show renewed signs of life, especially employment in information technologies, which has stabilized and is expected to improve this year. The climate for residential construction remains favorable and should assist markets for materials and supplies, furnishings and fixtures. Increased outlays for national defense and homeland security extend the markets for defense contracting in a wide range of high technology and traditional industries in New Jersey. And, NJ's export markets continue to experience modestly improved demand conditions.

Lastly, growing signs of improvement in the New York City economy will provide spillover impacts to New Jersey service and supply businesses.

While the evidence for accelerated growth in 2004 and 2005 is substantial, there remain areas of concern and weakness in the local economy. Local inflation is higher than the US average - housing price increases exceed national rates. Also, health care costs are rising, and energy prices are up. The cumulative impact of a rising cost of doing business holds back capital investment and business relocations to New Jersey.

Moreover, even with an improved overall outlook and labor market, non-residential construction remains burdened by high office vacancy rates that are expected to be with us for at least two more years. Finally, manufacturing across the country will continue turning to foreign outsourcing and other labor-cost saving measures in a relentless effort to boost productivity and profitability.

The US Economy

After emerging from the 2001 recession, the US economy has registered nine consecutive quarters of growth in real Gross Domestic Product (GDP). GDP grew by 3.1% in 2003, fueled by a strong second half when growth rocketed ahead by 8.2% in the 3rd quarter (a twenty year high) and registered a solid 4% gain in the 4th quarter.

Particularly noteworthy has been the recovery in business investment spending, which grew by 5.2% in 2003 and provided a much-needed boost to the technology sector. International trade also began adding to growth as the depreciated dollar stimulated a 19% rise in exports for the 4th quarter. The tireless U.S. consumer, helped by record low interest rates and tax cuts, continued to support growth, and consumption expenditures increased by 3.1% in 2003. Inflation remained low with the Consumer Price Index (CPI) rising 1.9% (Dec to Dec) and the core rate (without food and energy) increased only by 1.1% (the lowest rate in 43 years). Productivity (output per unit of labor input) soared by 9.4% in the 3rd quarter and grew by a strong 4.2% for the entire year.

Employment, unfortunately, has lagged in this improving economy - indeed the total number of jobs in the nation actually declined throughout this recovery. In 2003, payroll employment fell through August (by 282,000 jobs) and then recovered through December. For the year as a whole, the U.S. economy lost 53,000 jobs. However, payroll employment expanded by 112,000 jobs in January 2004 and although that is still only a modest increase, there is a broad consensus that the national labor markets will continue to improve in 2004.

Across The States

How widespread is the economic recovery? Compared to a year ago, the unemployment rate has fallen in 29 states while 14 states reported a higher jobless rate and 7 states had no change. Non-ag employment posted year over year gains in 26 states.

By sector, the broadest gains were realized in education and health services with increased jobs in 36 states and losses in 14 states. Construction gained in 31 states, bolstered by residential building. The leisure and hospitality sector increased in 29 states reflecting continued improvements in travel and tourism. The finance sector also posted employment gains in more than half the states.

States Reporting Employment Gains/Losses (No.)
November versus year ago

	Increase	Loss/no Chg
Total Non-Ag Employment	26	24
Educ & Health	36	14
Construction	31	19
Leisure & Hospitality	29	21
Finance	27	23
Prof & Bus. Services	23	27
Government	21	29
Manufacturing	0	50

Professional and business services, which includes computer and data processing services and other above average wage services, increased in 23 states, slightly better than gains in 20 states reported at mid-year. Government employment added jobs in only 21 states, with 29 states reporting no change or a decline. Recovery in manufacturing employment remained elusive with year over year losses in all states.

NJ Employment

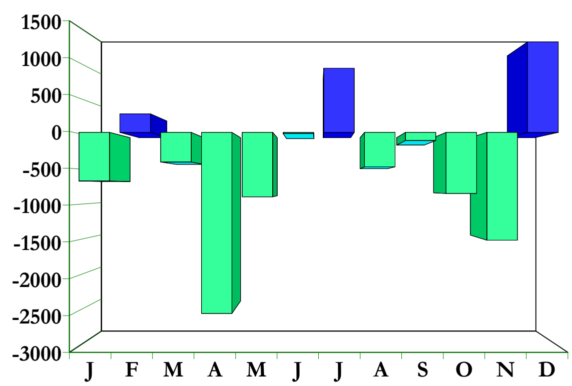
<NOTE: The Council notes that current payroll employment data are subject to an annual 'benchmarking' process by the US Department of Labor that corrects monthly survey employment to the larger universe of NJ employers. This national benchmarking process, applicable to all states, often changes the level of reported job gains in the previous year or two. This year's benchmarking may result in significant changes in NJ's historic employment data because of technical issues, but should not alter the improved 2004-2005 employment outlook>

Nationally, soaring improvements in labor productivity last year limited the number of new hires. Although we lack comparable data at the state level, it is likely that large productivity gains hindered job creation in NJ as well, resulting in an average annual reported gain of almost 17,000 jobs. The State's average unemployment rate for all of 2003 at 5.7% remained below the national rate of 6% and lower than the 8.2% rate in New York City and the 7.7% jobless rate in Philadelphia.

Although NJ's average annual job gains were modest last year, the State finished the 2nd half of 2003 with 5 months of declining unemployment, and 8 consecutive months of year-over-year gains in payroll employment.

Other positive labor market indicators include fewer initial claims for unemployment insurance that, versus a year ago, were lower in 9 of the past 12 months

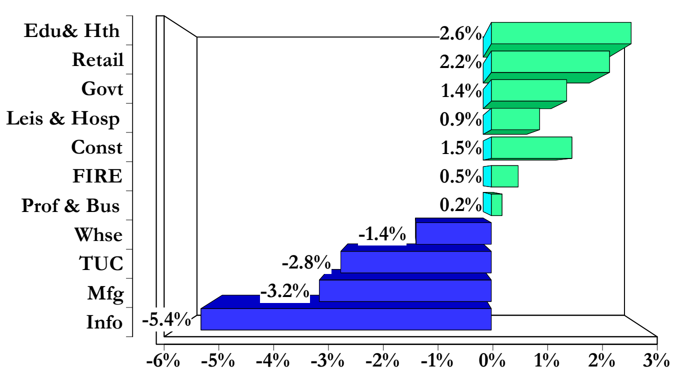
NJ Initial Unemployment Claims
Year over year changes



The temporary help personnel supply businesses, often an indicator of future hiring trends, expanded last year. Temporary help employment expanded in 11 of the previous 12 months, ending the year with a 2.4% increase in employment.

Looking back, sectors that contributed to employment gains were led by education & health services (+2.6%) which is driven more by demographics than the business cycle. Retail trade (+2.2%) and leisure & hospitality services (+.9%) benefited from increased consumer spending and improvements in the travel and tourism sector. Local government hiring boosted total government employment by 1.4%. Another strong year for home building and an expanding school construction program generated 1.5% more construction jobs. Lastly, modest gains were observed in the high wage service sectors of finance (+.5%) and business services (+.2%)

NJ Payroll Employment Change, 2002-03



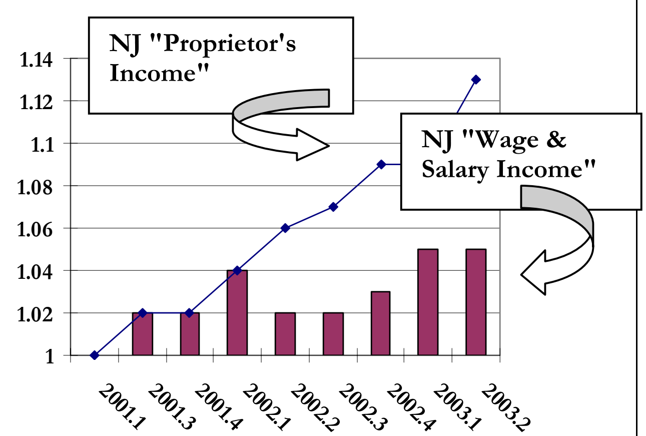
Lagging sectors were led by information technologies, manufacturing, and transportation/logistics. Factory employment, following national trends, declined by 3.2% related to weak capital spending, stagnation in hi-tech investment, and highly competitive overseas markets. Information technology dropped by 5.4%, while Transportation, communication and utilities (which includes logistics wholesale trade and warehousing) declined by 2.8%.

The Jobless Recovery?

The national recovery is more than 27 months old and many indicators have posted strong year-over-year gains. Employment, however, continues to lag. But is the job market as weak as the current data suggest?

There are two sources of US labor market statistics - one survey asks employers how many workers they have, while the second survey calls people at home and asks a series of work-related questions. The surveys have given opposite results at the national level. In New Jersey, both point to job growth, but the household survey has registered many more new jobs. The payroll survey does not easily measure self-employment. Could rising self-employment be the missing link underlying a weak labor market as measured by the payroll survey?

Evidence of rising self-employment is reflected in the recent growth observed in the amount of income earned by the self-employed (proprietors). Buried within the NJ personal income statistics are line items reporting income earned by proprietors. For the past two years proprietors’ income grew at the annual rate of 5.2%, while traditional wage and salary income increased at the annual rate of (only) 1.9%.



The growth in proprietors' income may be from improving income for the self-employed, increased entrepreneurial activity in New Jersey, or from corporate outsourcing of more assignments to former employees now serving as consultants.

Whatever the underlying causes, proprietors’ income is growing rapidly and is claiming a larger share of NJ personal income. The latest income data show proprietors' income in NJ now exceeds total wages and salaries earned in the state's manufacturing sector.

Personal Income & Retail Spending

NJ personal income for 2003 was recently revised to 2.9% versus the national 3.2% increase. Despite an improving labor market, the State's income gains were limited by modest increases in wages paid to workers and lower returns on investment incomes. For 2004, personal income is expected to rise 4.5%.

New Jersey's retail/consumer markets will benefit from continuing growth in payroll employment, gains in wage & salary payments, and a continuing recovery in travel and tourism. Consumer spending will receive an additional boost from upper income households who are due sizeable tax refunds in 2004 resulting from the 2003 federal tax cuts in capital gains and dividends. The Outlook expects consumer spending to rise by 4.5% in 2004 and 4.7% in 2005, up from an estimated 2.5% gain in 2003.

In 2003, NJ's consumer markets mirrored the small improvements in local labor markets as households started to recover from the financial burdens of the 2001 recession. Personal bankruptcies have fallen to a pre-recession level, while business bankruptcies peaked last year and are now declining.

Last year's 2.5% gain in consumer spending triggered a rise in retail jobs of almost 2%, making retail trade one of the best job creating sectors of 2003.

Key indicators of the health of retail markets are new car sales, home sales, and new residential building. Despite a flood of dealer incentives, motor vehicle registrations dropped by 1.9% from a year earlier. This was the 3rd consecutive year of declining registrations. With a recovery well under way in 2004, we anticipate a modest rebound in motor vehicle sales (2.7%).

Sales of existing homes (over 140,000) in 2003 remained at a high level, up 6% from 2001. Meanwhile, new residential building permits again exceeded 30,000 units. With near term prospects for continued low interest rates and improving demand conditions, NJ's residential markets for both new and existing homes will continue to generate strong downstream spending on home renovations, furnishings, appliances and fixtures.

Tourism contributed to significant retail trade increases last year based on Atlantic City visitor data and casino performance figures.

For 2004 and 2005 consumer market activity appears poised for growth. However, consumer spending remains exposed to a number of risks including rising interest rates, the future performance of the stock market and its resulting impact on household wealth and spending, and concerns over homeland security and its effect on a recovering travel and entertainment sector.

Consumer Prices

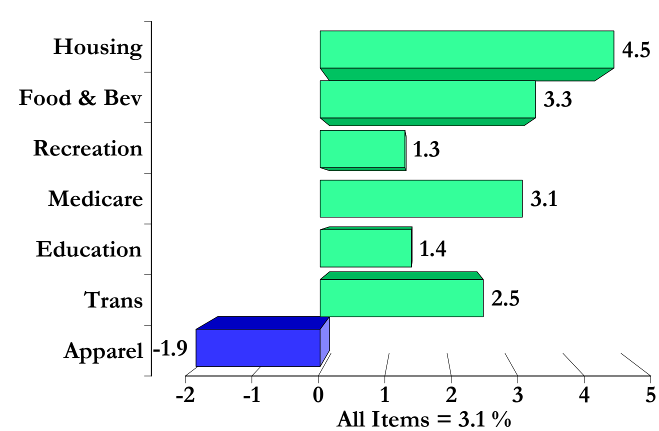
Inflation has bottomed out, and with continuing slack in the regional economy, prices are not expected to accelerate in 2004. Consumer prices in the New York/New Jersey metropolitan area rose by 3.1% in 2003 from a year earlier average. Nationally, the CPI rose by an annual average of 2.4%.

What caused consumer prices to rise? Housing and energy were the two major contributors to regional price increases. Energy/utility prices rose 9.2% and housing costs rose an average of 4.5% for the year. Across the nation the CPI housing component rose only 2.7%.

In 2003 consumer prices were driven higher by energy, housing and medical services. Cumulatively these items account for about 40% of consumer spending. Below average price increase were observed for transportation with a +2.5% increase), education & communications (+1.4%), recreation (+1.3%), apparel (-1.9%).

For 2004 the NY/NJ CPI is expected to post a smaller increase (+2%) as local housing markets, and home prices are expected to moderate and energy prices are expected to stabilize.

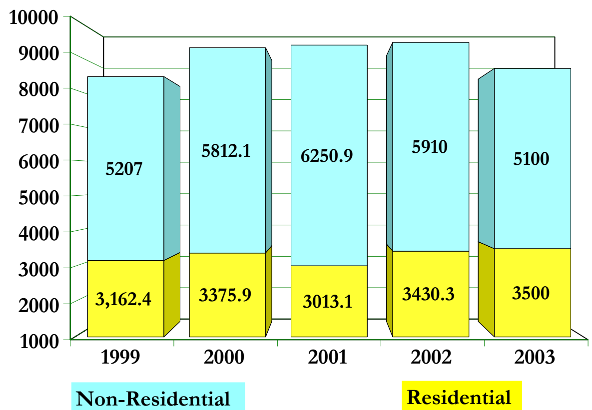
NY/NJ Consumer Price Index, Percent Change, 2002-03



Investing in NJ

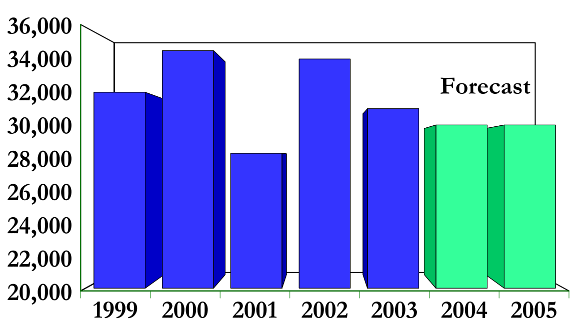
Building and construction activity typically reaches a peak late in the business cycle and recovers well after the recession trough has passed. The year 2003 was no exception to this pattern. Construction contracts will be down about 8% from a year earlier and total $8.5 billion. Construction market performance was the result of a healthy home building segment (about 40% of total construction), and a weak non-residential segment (about 60%).

NJ Construction Contracts (Millions $)
Residential + Non-Residential



Residential construction (approx $3.5 billion) should conclude 2003 with a 5% to 6% gain over last year. The increase in residential investment resulted largely from the rising value of home construction (larger, more expensive dwellings) and from the increase in housing starts (based on the 20% increase in building permits in the prior year).

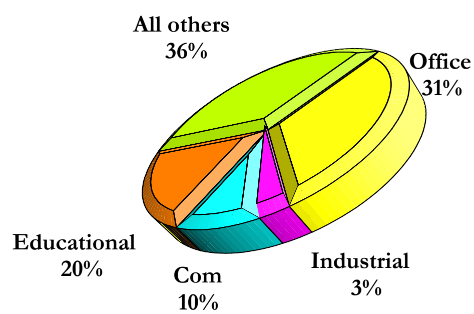
NJ Residential Building Permits



Building permits fell almost 9% in 2003 suggesting that housing starts should moderate in 2004. With general economic conditions favorable to home building and home sales, NJ's residential markets should extend their gains through 2005 with rising home values driving 5% annual increases in construction contracts.

The non-residential construction market fell by almost 13% in 2003, constrained by a drop of 20% in commercial and industrial building and a 15% decline in office construction. The best performing non-residential segment was education building with a gain of 13% in 2003. The NJ school rebuilding program accelerated last year and added over $100 million in construction to year earlier totals. The school building segment now accounts for 20% of NJ's non-residential construction activity and was a major boost to the State's economy.

NJ Non-Residential Construction, 2003
Percent Distribution



The recession, corporate downsizing, and the return of pre-leased office space to the market drove the State's office vacancy rate to about 15% in 2003. Office building, the largest non-residential segment, will gradually recover as office job creation accelerates in 2004 and 2005. Based on current rules of thumb, the office vacancy rate falls 1 percentage point for each additional 10,000 office jobs. Over the next two years construction activity will begin to transition from residential to non-residential building as the recovery matures. This transition will have implications for material suppliers since these two construction sectors use a different mix of materials, furnishings, and fixtures.

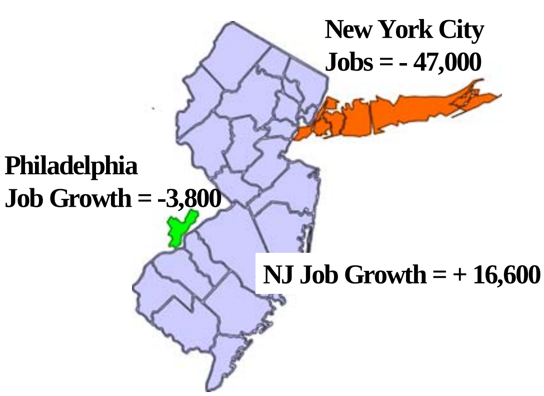
International Trade

NJ exports are expected to contribute little to overall economic growth in 2004. Following a 10% decline in 2002, NJ exports declined 1.5% in 2003. In contrast, US exports increased 4.4% in 2003. Nationally export growth began to accelerate late in 2003 with shipments of capital goods and industrial supplies; goods that are not widely produced in New Jersey. The US recovery provides evidence that manufacturers are benefiting from stronger growth in world demand and the weaker US dollar. Exports were boosted by service exports, which rose sharply, but the lack of comparable State data does not tell us how this may have benefited NJ.

Most of NJ's export situation is the result of a combination of industry mix and geography. New Jersey produces and exports a high proportion of technology goods. The demand for these goods has been in a recession for more than three years. As global high tech capital spending recovers in 2004, NJ shipments are expected to accelerate. Also, the economies of NJ's largest trading partners (NAFTA - Canada and Mexico and the European Union) were growing slowly, but recent forecasts by the World Bank project faster growth in these export markets. The added effects of more investment in high tech and a weaker US dollar will all contribute to improved New Jersey trade this year and in 2005.

The Region

The regional economic growth pattern has changed little - NJ continued to add jobs while the surrounding metropolitan areas (New York City and Philadelphia) continued to lose employment. For 2003, NJ added, as an annual average, 17,000 jobs, while Philadelphia lost 4,000 jobs and New York City shed 47,000 jobs. As a result New York City led the region in joblessness at 8.2%, Philadelphia trailed at 7.7%, while New Jersey's unemployment rate fell to 5.7%.



Given the sheer size of the New York City (NYC) economy, its prospects significantly affect Northern NJ's businesses and households that service, supply, and work for City-based businesses. On a monthly peak to trough basis, NYC lost 235,000 jobs during its 33-month decline that finally ended in the fall of 2003. Declines in sectors that have strong regional multiplier effects, such as finance, information technologies, and professional & business services have reduced opportunities for numerous NJ based businesses.

Recent indicators suggest that the dual effects of recession and homeland security are slowly dissipating and a NY metropolitan recovery is underway. Foreign tourism also is improving as jobs in the leisure & hospitality sector rose in 2003. Hotel occupancy is improving and air traffic is up from year ago levels. More importantly, employment in the finance sector may have bottomed out and begun to improve. For 2004 and 2005 continued improvements in the finance, media, and tourism sectors are expected. As a result the Council expects economic activity in New Jersey to benefit from a recovering New York City.

The Philadelphia economy offers fewer opportunities to support NJ growth in 2004. Philadelphia continues to lose jobs, albeit at a lesser rate. Manufacturing losses still weaken the City, while service sector growth is not yet sufficient to replace the loss in factory employment.

NJ Labor Markets

Across the State, differences in industry mix accounted for much of the variation in labor market growth. Southern NJ, which includes the State's smallest Labor Markets, gained the most jobs, accounting for one half of NJ's employment gains for the year. The Camden Labor Area contributed the most jobs to Southern NJ's economy last year with increases in retail trade, education & health services, finance, and government. The Atlantic City Labor Area benefited from a continuing recovery in tourism and the mid-year opening of the new Borgata casino. Casinos increased employment by almost 3% while posting their best revenue gains in their 25-year existence.

Northern NJ, accounting for one half of the State's employment, added jobs at a rate comparable to the NJ average of .4%. Weak job prospects in New York City, few or no increases in the finance sector, and across-the-board weakness in manufacturing limited employment increases.

Central NJ finished the year with little change in total employment. Most hi tech sectors, which are heavily concentrated in this area, held job levels constant with year earlier totals.

NJ Review & Economic Outlook: 2004 - 2005

(Current $ or Nos.)	**1999**	**2000**	**2001**	**2002**	**2003**	**Forecast 2004**	**2005**
Gross State Product (bill)	$332.16	$357.45	$365.39	$377.00	$394.00	**413.7**	**436.45**
Personal Income (bill)	$288.80	$318.20	$328.70	$339.89	$349.75	**365.5**	**382.7**
Retail Sales (bill)	$93.6	$101.9	$105.0	$106.7	$109.4	**$114.3**	**$119.7**
New Vehicle Registrations (000's)	611.9	663.6	655.5	645.5	633.0	**650**	**660**
Non-Res. Construction Contracts (mill $)	$5,207.0	$5,812.1	$6,250.9	$ 5,910.0	$ 5,100.0	**$ 5,355.0**	**$ 5,756.0**
Residential Building Permits (No.)	32,004	34,560	28,267	34,044	31,000	**30,000**	**30,000**
Res. Construction Contracts (mill $)	$3,162.4	$3,375.9	$3,013.2	$3,430.3	$3,500.0	**$ 3,675.0**	**$ 3,858.8**
Consumer Price Index (1982-84=100)	177.0	182.5	187.1	191.9	197.8	**201.76**	**206.3**
(Real 1982$)							
Gross State Product (bill)	$187.7	$195.9	$195.3	$196.5	$199.19	**$205.0**	**$211.6**
Personal Income (bill)	$163.2	$174.4	$175.7	$177.1	$176.82	**$181.2**	**$185.5**
Retail Sales (bill)	$52.9	$55.8	$56.1	$55.6	$55.04	**$56.6**	**$58.0**
Non-Res. Construction Contracts (mill $)	$2,941.8	$3,184.7	$3,340.9	$3,079.7	$2,578.4	**$2,654.1**	**$2,790.1**
Res. Construction Contracts (mill $)	$1,786.7	$1,849.8	$1,610.5	$1,787.5	$1,769.5	**$1,821.5**	**$1,870.5**
Employment:							
Total Non-Farm (000)	3,901.1	3,994.5	3,997.2	3,993.8	4,010.4	**4,066.2**	**4,121.3**
Manufacturing (000)	422.5	421.6	401.2	368.8	357.0	**348.07**	**341.1**
Service Producing Industries (000)	2,755.2	2,832.5	2,833.0	2,846.3	2,860.9	**2,915.9**	**2,970.7**
Government	577.6	588.8	602.6	615.2	623.3	**626.01**	**635.25**
Unemployment Rate (%)	4.6%	3.7%	4.2%	5.8%	5.8%	**5.7%**	**5.6%**

Percent Change from previous year:	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Gross State Product (Current $, bill)	4.8%	7.6%	2.2%	3.2%	4.5%	**5.0%**	**5.5%**
Personal Income (Current $, bill)	3.6%	10.2%	3.3%	3.4%	2.9%	**4.5%**	**4.7%**
Retail Sales (Current $, bill)	9.3%	8.9%	3.0%	1.6%	2.5%	**4.5%**	**4.7%**
New Vehicle Registrations	11.1%	8.4%	-1.2%	-1.5%	-1.9%	**2.7%**	**1.5%**
Non-Res. Construction Contracts	23.1%	11.6%	7.5%	-5.5%	-13.7%	**5.0%**	**7.5%**
Residential Building Permits (No.)	2.1%	8.0%	-18.2%	20.4%	-8.9%	**-3.2%**	**0.0%**
Res. Construction Contracts		6.8%	-10.7%	13.8%	2.0%	**5.0%**	**5.0%**
Consumer Price Index (All Urban)	2.0%	3.1%	2.5%	2.6%	3.1%	**2.0%**	**2.3%**
Gross State Product (82$, bill)	2.8%	4.4%	-0.3%	0.6%	1.4%	**2.9%**	**3.2%**
Personal Income (82$, bill)	1.6%	6.9%	0.8%	0.8%	-0.2%	**2.4%**	**2.4%**
Retail Sales (82$, bill)	7.2%	5.6%	0.5%	-0.9%	-1.0%	**2.9%**	**2.4%**
Non-Res. Construction Contracts (82$)	20.7%	8.3%	4.9%	-7.8%	-16.3%	**2.9%**	**5.1%**
Res. Construction Contracts		3.5%	-12.9%	11.0%	-1.0%	**2.9%**	**2.7%**
Employment:							
Total Non-Farm	2.6%	2.39%	0.07%	-0.1%	0.4%	**1.4%**	**1.4%**
Manufacturing	-11.6%	-0.2%	-4.8%	-8.1%	-3.2%	**-2.5%**	**-2.0%**
Service Producing Industries	5.3%	2.8%	0.0%	0.5%	0.5%	**1.9%**	**1.9%**
Government	1.0%	1.9%	2.3%	2.1%	1.32%	**0.4%**	**1.5%**

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